

July 18, 1997

Re: Comprehensive Unbundling of Natural Gas Local Distribution Companies' Services

Dear [Recipient],

The Department of Public Utilities ("Department") has stated its firm commitment to move toward competitive gas and electric markets as a means to achieve its regulatory goal of ensuring that utilities provide safe and reliable service at the lowest possible cost to society. See Electric Industry Restructuring, D.P.U. 95-30, at 1-2 (1995); Incentive Regulation, D.P.U. 94-158, at 4-7 (1995); Mergers and Acquisitions, D.P.U. 93-167-A at 21 (1994). In addition, the Department has approved specific initiatives aimed at promoting and encouraging increased reliance on market forces in place of traditional regulation. Department Letters on Special Contracts, March 20, 1996, and June 18, 1996; Interruptible Transportation/Capacity Release, D.P.U. 93-141-A at 21 (1996); Boston Gas Company, D.P.U. 93-60, at 413 (1993).

As the Department previously has indicated, comprehensive industry restructuring can be promoted efficiently through discussions among utilities, their customers, and alternative suppliers. See D.P.U. 95-30, at 46-47. For example, the Department understands that participants in the Bay State Gas Company ("Bay State") collaborative have been developing proposals for the comprehensive unbundling of services to all of Bay State's customers in Massachusetts.

The Department finds that a similar collaborative forum to establish principles and procedures for unbundling of all natural gas local distribution companies' ("LDC") services in Massachusetts would facilitate the achievement of our regulatory goals. Accordingly, the Department directs the ten investor-owned LDCs to commence, on or before August 15, 1997, a collaborative discussion to develop common principles and appropriate regulations by which unbundling by all jurisdictional LDCs might proceed. The Department strongly encourages the participation of marketers, user representatives, pipelines, and other state agencies in this collaborative effort. In addition, the Department will designate staff members to engage in the process.

The Department has articulated principles in its electric restructuring docket that are important to the success of a competitive market, and which can provide guidance with respect to comprehensive unbundling in the natural gas industry. See Electric industry Restructuring, D.P.U. 95-30 (1995). As in the electric industry, a competitive gas market would: (1) provide the broadest possible choice; (2) provide all customers with an opportunity to share in the benefits of increased competition; (3) ensure full and fair competition in the gas supply market; (4) functionally separate supply from local distribution services; (5) support and further the goals of environmental regulation; and (6) rely on incentive regulation where a fully competitive market cannot exist, or does not yet exist.

See id. at 15-17.

We expect that the collaborative discussions will identify those issues for which generic jurisdictional, regional or pipeline system principles would be either necessary or useful in assuring the development of efficient unbundled retail natural gas services.

Further, we anticipate that, at a minimum, the participants will address the following issues:

(1) services that can be offered on a competitive basis; (2) terms and conditions of service; (3) consumer protections and social programs; (4) mitigation of gas-related and non-gas related transition costs; (5) third party supplier qualifications; and (6) curtailment principles that govern the use of natural gas under emergency conditions when gas supply is disrupted.

In addition, the Department stated that it would consider the issue of interruptible transportation pricing ("IT") in Phase II of Boston Gas Company, D.P.U. 96-50. While the Department recognizes that IT pricing is not necessarily an integral part of comprehensive unbundling of services, we are aware of the interest of the participants in this topic, and encourage the resolution of this issue in the collaborative. Should the participants be unable to reach an agreement on this issue, the Department will conduct a separate investigation into IT pricing. We also recommend that participants consider retaining a facilitator or mediator to guide the discussions.

In order for the Department to assess the progress of the discussions, we require the ten investor-owned LDCs to submit, on or before November 15, 1997, a comprehensive report outlining the status of all of the issues that have been the subject of discussion. Based on our review of the report, the Department will determine the nature and extent of the Department's formal investigation into the unbundling of natural gas services in the Commonwealth.

The Department notes that the issues raised in D.P.U. 96-50 (Phase II) and XENERGY, D.P.U. 97-22 will be addressed in the collaborative discussions. Accordingly, the Department will defer further proceedings in D.P.U. 96-50 (Phase II) and consideration of D.P.U. 97-22 until we have completed our assessment of the collaborative discussions.

Sincerely,

/s/
John B. Howe, Chairman

/s/
Janet Gail Besser, Commissioner

cc: Mary L. Cottrell, Secretary